

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 AID-05 CIAE-00 COME-00 EB-04

FRB-01 INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-06

SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 NSC-05 SS-20

STR-01 CEA-01 ABF-01 L-01 PA-01 PRS-01 USIA-06 DRC-01

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R 111903Z OCT 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5617

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 16156

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING OCTOBER 10)

REF.: BONN 15749, BONN 15656

1. FOREIGN DEMAND STILL BOOMING -- DOMESTIC DEMAND REMAINS WEAK: ACCORDING TO PRELIMINARY OFFICIAL STATISTICS, THE VALUE OF NEW EXPORT ORDERS BOOKED BY INDUSTRY IN AUGUST SURPASSED AUGUST 1973 LEVELS BY 32.7 PERCENT, A YEAR-TO-YEAR GROWTH RATE EXCEEDED ONLY ONCE SO FAR THIS YEAR (APRIL, PLUS 35.5 PERCENT). DOMESTIC ORDERS, ON UNCLASSIFIED

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THE OTHER HAND, CONTINUED WEAK IN AUGUST -- UP ONLY

3.4 PERCENT NOMINALLY OVER AUGUST 1973. THE VALUE OF EXPORT AND DOMESTIC ORDERS TOGETHER IN AUGUST WAS 11 1/2 PERCENT HIGHER THAN A YEAR AGO. GIVEN STIFF PRICE HIKES, THIS MEANS A 4 1/2 PERCENT YEAR-TO-YEAR DECLINE IN TERMS OF VOLUME (EXPORT ORDERS UP SOME 13 PERCENT, DOMESTIC ORDERS DOWN ABOUT 10 PERCENT).

2. INDUSTRIAL PRODUCTION WEAKENS FURTHER: THE VOLUME OF INDUSTRIAL PRODUCTION IN AUGUST FELL SHORT OF COMPARABLE 1973 LEVELS BY 2.6 PERCENT, THE POOREST PERFORMANCE SO FAR THIS YEAR. CONSTRUCTION WAS DOWN 11.6 PERCENT FROM AUGUST 1973, WHILE OUTPUT OF CONSUMER GOODS AND CAPITAL GOODS DECLINED BY 8.6 PERCENT AND 1.5 PERCENT, RESPECTIVELY. IN JANUARY/AUGUST INDUSTRIAL PRODUCTION AVERAGED A MODEST ONE PERCENT ABOVE LAST YEAR'S LEVEL.

3. UNEMPLOYMENT CONTINUES TO RISE: THE PERSISTENTLY SLUGGISH ECONOMIC ACTIVITY IS REFLECTED IN LABOR MARKET DEVELOPMENTS TO AN INCREASING EXTENT. IN SEPTEMBER, UNEMPLOYMENT INCREASED BY SOME 30,000 FOR A TOTAL OF 557,000. THE RATE OF UNEMPLOYMENT IN SEPTEMBER CAME TO 2.4 PERCENT OF THE LABOR FORCE, AS COMPARED TO ONLY 1 PERCENT A YEAR AGO. AT THE SAME TIME, TEMPORARY REDUCTION OF WORKING HOURS INCREASED SHARPLY, AFFECTING SOME 265,000 WORKERS IN SEPTEMBER, VERSUS 105,000 IN AUGUST AND ONLY 36,000 IN SEPTEMBER 1973. VACANCIES IN SEPTEMBER 1974 DROPPED TO 298,000 -- LESS THAN HALF OF THE NUMBER OF JOB OPENINGS RECORDED A YEAR AGO.

4. INVESTMENT CLIMATE REMAINS COOL: IN ITS OCTOBER MONTHLY REPORT, THE BUNDESBANK NOTES THAT BUSINESS INVESTMENT IN FIXED ASSETS AND INVENTORIES DURING THE FIRST HALF OF THE YEAR FELL SHORT OF COMPARABLE 1973 LEVELS BY 7 PERCENT IN CURRENT PRICES, REFLECTING UNCERTAINTY OVER FUTURE SALES PROSPECTS AS WELL AS A PERSISTENT PROFIT SQUEEZE. THE LATTER IS PRIMARILY ATTRIBUTED TO RISING WAGE COSTS. WHEREAS GROSS INCOME FROM BUSINESS AND PROPERTY IN JANUARY/JUNE 1974 BARELY MATCHED COMPARABLE 1973 LEVELS, UNCLASSIFIED

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GROSS INCOME FROM WAGES AND SALARIES ROSE BY 10 PERCENT OVER THE YEAR.

5. FEDERAL SPENDING CONTINUES EXPANSIONARY: THE BUNDESBANK ALSO NOTES THAT FEDERAL GOVERNMENT CASH TRANSACTIONS CONTINUE TO EXERT AN EXPANSIONARY EFFECT. DURING THE FIRST NINE MONTHS, FEDERAL GOVERNMENT EXPENDITURES -- ON A CASH BASIS -- SURPASSED LAST YEAR'S LEVEL BY 12 PER-

CENT. CASH RECEIPTS IN JANUARY/SEPTEMBER 1974 ROSE BY 6.5 PERCENT OVER THE SAME PERIOD A YEAR AGO. AS THE NET EFFECT, THERE WAS A DM 2.5 BILLION CASH DEFICIT DURING THE FIRST NINE MONTHS OF THE YEAR, WHEREAS IN JANUARY/SEPTEMBER 1973 A DM 2 BILLION CASH SURPLUS WAS RECORDED.

6. CONSUMER PRICES REACCELERATE: THE YEAR-TO-YEAR RATE OF INCREASE OF LIVING COST, WHICH HAD DECLINED FROM ITS 7.8 PERCENT PEAK RECORDED IN DECEMBER 1973 TO 6.9 PERCENT BY JULY 1974, WENT UP AGAIN IN SUBSEQUENT MONTHS, AMOUNTING TO 7.0 PERCENT IN AUGUST AND 7.3 PERCENT IN SEPTEMBER. HOWEVER, EXPECTATIONS ARE THAT THE RATE

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R 111903Z OCT 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5618

INFO AMEMBASSY BERN

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WILL DROP AGAIN TOWARD THE END OF THE YEAR, REFLECTING THE HIGH, OIL PRICE INFLATED LATE 1973 BASE.

7. CONTINUED LIMITATION ON SALE OF FEDERAL GOVERNMENT SCHULDSCHNEINE (PROMISSORY NOTES) TO FOREIGNERS. REVERSING A DECISION MADE LAST MONTH WHICH PERMITTED GERMAN BANKS TO RESELL FEDERAL GOVERNMENT SCHULDSCHNEINE TO FOREIGNERS THEREBY ALLOWING THE GOVERNMENT TO FINANCE PART OF ITS BUDGET DEFICIT ABROAD (SEE REFTELS), THE FINANCE MINISTRY ON OCTOBER 9 ANNOUNCED THAT SUCH SALES WOULD BE LIMITED TO NOTES WITH MATURITIES OF FOUR YEARS
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OR MORE. THE INITIAL DECISION TO PERMIT THESE SALES HAD MET WITH CONSIDERABLE NEGATIVE REACTION FROM THE BUNDESBANK, THE ECONOMICS MINISTRY AND THE OPPOSITION POLITICAL PARTIES. THE BUNDESBANK ARGUED THAT THE SALES WERE INAPPROPRIATE IN VIEW OF GERMANY'S SURPLUS POSITION.

8. FOREIGN EXCHANGE MARKET: THE DOLLAR DRIFTED DOWNWARD DURING THE REPORTING WEEK, A DEVELOPMENT ATTRIBUTED IN THE FINANCIAL PRESS TO GENERAL DISAPPOINTMENT WITH PRESIDENT FORD'S MEASURES TO COMBAT INFLATION AND TO LOWER INTEREST RATES IN THE UNITED STATES. FOR THE FIRST TIME IN SEVERAL MONTHS THE BUNDESBANK BOUGHT DOLLARS (\$5 MILLION ON TUESDAY AND AN ADDITIONAL \$25 MILLION ON THURSDAY). DURING THE WEEK SPOT AND FORWARD DOLLARS DEVELOPED AS FOLLOWS:

FORWARD DOLLARS (DISCOUNTS IN PCT.P.A.)				
	SPOT DOLLARS	ONE-MONTH	THREE-MONTH	
OCT 4	DM 2.6330	2.7	2.3	
7	2.6133	1.8	2.2	
8	2.6090	1.0	1.8	
9	2.5890	1.0	2.3	
10	2.5827	2.6	1.6	

WITHIN THE JOINT FLOAT ALL CURRENCIES WERE ABOVE THEIR DM CENTRAL RATES. HOWEVER, WITH THE EXCEPTION OF THE BELGIAN FRANC ON FRIDAY, OCTOBER 4, NONE SURPASSED THEIR UPPER DM INTERVENTION RATES, THEREBY PROVIDING INDICATIONS THAT THE LONG-TERMED WEAKNESS OF THE DM MAY BE AT AN END.

9. MONEY MARKET: THE GERMAN MONEY MARKET REMAINED TIGHT. DURING THE REPORTING WEEK FRANKFURT INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

OCT 4	9-9.5	9.2-9.5	9.6-9.8
7	9-9.5	9.2-9.5	9.6-9.8
8	9-9.5	9.2-9.5	9.6-9.8
9	9-9.4	9.2-9.5	9.6-9.8
10	9-9.4	9.2-9.5	9.6-9.8

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10. MONEY RESERVES: IN THE FOURTH WEEK OF SEPTEMBER BUNDESBANK MONETARY RESERVES DECLINED BY DM 0.3 TO DM 87.0 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE FELL BY DM 1.1 BILLION AND GROSS RESERVES BY DM 1.2 BILLION. IMF GOLD TRANCHE POSITION INCREASED BY DM 48 MILLION AND SDR HOLDINGS FELL BY 145 MILLION.

11. BANK LIQUIDITY: IN THE FINAL WEEK OF SEPTEMBER BANK LIQUIDITY INCREASED BY DM 0.7 BILLION. THE

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R 111903Z OCT 74

FM AMEMBASSY BONN

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INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
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PRINCIPLE FACTORS INCREASING LIQUIDITY WERE THE DM 3.6 BILLION DECLINE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK AT THE END OF A MONTH AND THE DM 0.7 BILLION DECLINE IN MINIMUM RESERVES HELD AT THE BUNDESBANK. LIQUIDITY WAS REDUCED BY THE ABOVE-MENTIONED DECLINE IN BUNDESBANK MONETARY RESERVES AND THE NORMAL INCREASE IN CURRENCY IN CIRCULATION AT THE END OF A MONTH (DM 3.3 BILLION). BANKS REDUCED LOMBARD BORROWINGS AT THE BUNDESBANK BY DM 0.7 BILLION.

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12. BOND MARKET: THE PRICE DECLINE OF 6 PERCENT DOMESTIC BONDS WHICH BEGAN TWO WEEKS AGO CONTINUED. DURING THE REPORTING WEEK THE FAZ AVERAGE YIELDS TO MATURITY OF OUTSTANDING DOMESTIC BONDS DEVELOPED AS FOLLOWS:

	8 PERCENT	7 PERCENT	6 PERCENT
OCT 4	11.29	11.21	10.58
7	11.30	11.18	10.58
8	11.29	11.17	10.59
9	11.31	11.17	10.62
10	11.30	11.16	10.62

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